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## **INTRODUCTION**

The Office of Internal Audit performed an audit of Houghton/Keweenaw County FIA for the period October 1, 2002 through October 31, 2003. The objective of our audit was to determine if internal controls in place at the local offices provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Houghton/Keweenaw County FIA had 27 full time equated positions (FTE's) at the time of our review. Houghton/Keweenaw County FIA provided assistance to an average 2,768 recipients per month in FY 2002, with total assistance payments of \$3,169,753 for the fiscal year.

## **SCOPE**

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Houghton/Keweenaw County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. Our audit included the following:

Cash Receipts	Cash Disbursements
General Ledger	Modified Accrual Basis Balance Sheet
Safe and Controlled Documents	State Emergency Relief (SER)
Employment Support Services	Client Processing
CIS/ASSIST	Payroll and Timekeeping
Procurement Card	Child Protective Services

## **EXECUTIVE SUMMARY**

Based on our audit, we conclude that the Houghton/Keweenaw County FIA internal controls are generally adequate to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We did however, find instances of noncompliance with FIA policies and procedures, which are detailed below.

## **LOCAL OFFICE RESPONSE**

The management of Houghton/Keweenaw County FIA has reviewed all findings and recommendations included in this report. They indicated in a memorandum dated January 5, 2004 that they are in general agreement with the report.

### **Cash Receipts**

No findings in this area.

### **Cash Disbursements**

No findings in this area.

### **General Ledger**

#### **Cash with the County Treasurer**

1. Houghton/Keweenaw County FIA financial records for Cash with the County Treasurer did not agree with the County Treasurer's records. The amount reported by the County Treasurer did not include the FIA disbursing account or the FIA petty cash account.

WE RECOMMEND that Houghton/Keweenaw County FIA work with the County Treasurer to reconcile any discrepancies in the Cash with County Treasurer account.

### **Modified Accrual Basis Balance Sheet**

#### **County Equity Balance**

2. Houghton/Keweenaw County FIA was preparing the Modified Accrual Basis Sheet, but did not investigate differences in the county equity per the balance sheet versus the amount shown on the Change in County Equity Statement. Accounting Manual Item 403.2 states that the Change in County Equity Statement provides a verification and reconciliation of the County Equity amount on the Balance Sheet. Differences should be reconciled to provide an accurate presentation of the local office's financial position.

WE RECOMMEND that Houghton/Keweenaw County FIA investigate and correct the discrepancy in the amount of county equity.

### **Safe and Controlled Documents**

#### **Access to the Fiscal Office**

3. Houghton/Keweenaw County FIA did not restrict access to the Fiscal Office. The Primary Internal Control Criteria for Local/District Office Operations states that access to the work area where checks, cash, EBT Bridge Cards and other negotiables are stored or issued should be limited to authorized fiscal staff and their supervision.

WE RECOMMEND that Houghton/Keweenaw County FIA restrict access to the fiscal office to fiscal staff and supervision.

### **State Emergency Relief**

No findings in this area.

### **Employment Support Services**

No findings in this area.

### **Client Processing**

No findings in this area.

### **CIS/ASSIST**

#### **LOA Security**

4. Houghton/Keweenaw County FIA did not maintain backup tapes for its Local Office Automation (LOA) System at an off-site location. Backup tapes should be stored off-site to protect them in event of a flood, fire or other disaster to ensure that the County would be able to reconstruct its records if necessary.

WE RECOMMEND that Houghton/Keweenaw County FIA maintain a backup tape of its LOA System at an off-site location.

**Payroll and Timekeeping**

No findings in this area.

**Procurement Card**

No findings in this area.

**Child Protective Services**

No findings in this area.